

Christopher T. Roach

One Monument Square
Portland, ME 04101

207-791-1373 voice
207-791-1350 fax
croach@pierceatwood.com
pierceatwood.com

October 12, 2007

Eric A. Cioppa, Acting Superintendent
c/o Vanessa Leon
Docket No. INS-07-1000
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Re: Anthem BCBS 2008 HealthChoice Individual Rate Filing
Filing coversheet

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY: Christopher T. Roach
DATE: October 12, 2007
DOCUMENT TITLE: Anthem BCBS Response to Second Information Requests
of Advocacy Panel
DOCUMENT TYPE: Response to Information Requests
CONFIDENTIAL: **No**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Thomas C. Sturtevant, Esquire
Christina M. Moylan, Esquire
Judith M. Shaw, Deputy Superintendent
James Bowie, Esquire

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In re: ANTHEM BLUE CROSS AND)	
BLUE SHIELD 2008 INDIVIDUAL)	APPLICANT’S RESPONSE TO
RATE FILING FOR)	SECOND INFORMATION REQUEST
HEALTHCHOICE, HEALTHCHOICE)	OF THE ADVOCACY PANEL
STANDARD AND BASIC)	
PRODUCTS)	
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)	
Docket No. INS-07-1000)	October 12, 2007
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)	

APPLICANT'S RESPONSE TO SECOND INFORMATION REQUEST OF THE ADVOCACY PANEL

October 12, 2007

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION
BUREAU OF INSURANCE

IN RE:)	
)	
ANTHEM BLUE CROSS AND BLUE)	
SHIELD 2008 INDIVIDUAL RATE)	APPLICANTS' RESPONSE TO
FILING FOR HEALTHCHOICE,)	SECOND INFORMATION
HEALTHCHOICE STANDARD AND)	REQUEST OF THE ADVOCACY
BASIC PRODUCTS)	PANEL
)	
Docket No. INS-07-1000)	
		October 12, 2007

Applicant Anthem Health Plans of Maine, Inc., d/b/a Anthem Blue Cross and Blue Shield ("Anthem BCBS") hereby responds to the Second Information Request of the Advocacy Panel dated October 5, 2007 as follows:

1. Public Law Chapter 115 of 2007, "An Act to Extend Health Insurance Coverage for Dependent Children up to 25 Years of Age" requires carriers to offer to continue coverage for dependent children up to 25 years of age. In its filing, Anthem requests authorization from the Superintendent to implement this dependent coverage for all contracts, essentially treating the coverage as a mandated benefit rather than a mandated offer. Please explain the reasons for Anthem's request. Include in the explanation a thorough analysis demonstrating that inclusion of this coverage meets the standards for a minor benefit modification pursuant to 24-A M.R.S.A. Sec. 2850-B(I).

Response: Anthem BCBS is requesting that the Superintendent approve implementation of the extension of coverage for dependent children up to age 25 years of age for all contracts rather than offering the extension of coverage as an offer, or rider, type benefit. Extending this benefit to all contracts increases the likelihood that more dependents will be covered. By extending the benefit to all contracts the risk of adverse selection is much more limited than it would be under a rider offer of the benefit. Typically an optional offer benefit will attract membership specifically in need of the offered benefit. This leads to pricing of the optional offer that assumes adverse selection and thus limits the purchase of the offer. By including the benefit for all subscribers Anthem BCBS is able to include the benefit at a reasonable cost in relation to the benefit and expects to be able to insure more people.

As reflected in Exhibit XIII of the filing, Anthem BCBS has calculated that the value of this benefit in family contracts is 1.2%. As such, the proposed change reflects less than a 5% benefit change and, accordingly, constitutes a minor modification to the HealthChoice benefits.

2. For the period from 2003 through 2007, please:

- (a) List each mandate (with its effective date) for which there was an adjustment to historic trend experience;
- (b) For each listed mandate, explain its financial impact on historic trend;
- (c) Identify those listed mandates whose impact Anthem has removed from trend experience in the process of determining prospective trend, explaining how each such adjustment was made.

Response:

- (a) No adjustments for mandated benefits have been made to trend data included in this filing.
- (b) Please see the response to part (a).
- (c) Please see the response to part (a).

3. For each year from 2003 through 2006, please state the ratio of paid claims to covered charges for children aged 18 and under.

Response:

<u>Year</u>	<u>Ratio of Paid to Allowed</u>
2003	46.3%
2004	50.3%
2005	53.2%
2006	57.2%

4. Filing Exhibit VIII, ¶ IV appears to use assumptions (a) that the hearing aid mandated benefit for children will be utilized to obtain two hearing aids for every child with a hearing loss and (b) that no child without insurance will have hearing aids. Are these assumptions reasonable, in light of the likelihood that some treatments for hearing loss will not involve hearing aids and the likelihood that some individuals will pay for hearing aids in ways other than insurance? Please explain.

Response: Yes, Anthem BCBS believes that these assumptions are reasonable. While not all treatments for hearing loss will involve hearing aids, the coverage of a service or device will typically lead to higher utilization of that benefit than benefits that may not be covered services under a health plan. You are correct that the underlying assumption is that if the medical issue is significant enough to result in hearing loss, the affected member is likely to need two hearing aids. Based on our review of an October, 2003 report on this issue prepared by the Bureau and its consultants, Anthem BCBS will amend the filing to account for the assumption that not all of those with hearing loss use hearing aids. Consistent with that report, Anthem BCBS will apply a factor of 62.8% to the calculation of the cost of this benefit.

5. Filing Exhibit VIII, ¶ IV also appears to use the assumption that the ratio of paid claims to allowed benefits for hearing aids is 66%, consistent with the most recently measured ratio in Exhibit VI. This ratio can be calculated from data in Exhibit VI, but Exhibit VI includes data for all HealthChoice members, not just members aged 18 and under. Anthem's response to the inquiry numbered 5 in the Attorney General's First Informational Request suggests that the ratio of paid claims to allowed benefits would be lower for children than for adults. Is the use of the 66% ratio in Exhibit VIII reasonable for a mandated benefit for children only? Please explain.

Response: Anthem BCBS's response to the inquiry numbered five in the Attorney General's First Informational Request does not necessarily suggest that the ratio of paid claims to allowed benefits would be lower for children than for adults. It would be expected that utilization would play a part in lower cost for children, not a difference in the ratio of paid claims to allowed benefits between children and adults. That said, the response to request number three above indicates a ratio lower than 66% in the observed periods reflected. However, this ratio has been increasing at a pace of about 3% to 4% per year making the 66% utilized in the calculation a reasonable estimate for 2008.

6. With respect to the Milliman factors shown in filing Exhibit VII:

(a) What assumptions were used for:

(i) The amount of average claims;

(ii) The distribution of claim amounts by contract;

(iii) The assumed claim trend?

(b) Were similar factors used in prior filings? If so, have they been updated to reflect trend?

(c) Is there any way to confirm the reasonableness of these factors from information in the filing?

(d) Has Anthem done any analysis of the impact of leveraging, using its own claim experience, to validate the Milliman factors?

Response:

- (a) Anthem BCBS does not have the underlying assumptions used to derive the coverage utilization factors referenced in this request. Both the factors and the letter accompanying the factors were included as part of the original filing.
- (b) These factors have been approved for use in the two past HealthChoice filings for rates in 2006 and 2007. The factors represent anticipated differences in utilization based on benefit coverage which should change very little over a short period of time due to claim trend.
- (c) Theoretical benefit coverage utilization factors are in place due to the relatively small enrollment in most of the benefit options for which the factors are applied.
- (d) Please see the response to part (c). Also, please note that these factors are in place to reflect different utilization patterns anticipated due to differences in benefit coverage which are not related to leveraging.

7. Is there adequate information in the filing to determine historic values for leveraging and mix that correspond to the projected values in Exhibit VI? If so, please demonstrate.

Response: Yes, Anthem BCBS believes there is adequate information to determine the leveraging factors and is including herein values which allow for the calculation of the mix factors.

The method of determination of the leveraging factor as proposed by the Superintendent in last year's HealthChoice Decision & Order is included as Exhibit VII in the filing. That methodology, together with the historic enrollment distributions by benefit option reflected in Exhibit X, are adequate to determine historic leveraging factors. The methodology for determining the mix factors was described in the Actuarial memorandum. The values used to determine the mix factors are:

Inpatient: $1.123/1.072 = 1.048$ or 4.8%
Outpatient: $1.076/1.056 = 1.019$, or 1.9%
Professional: $1.036/1.020 = 1.016$, or 1.6%

8. According to the revised Exhibit IX, a loss ratio of 85.8% was projected for the 2006 rates. The actual loss ratio for 2005 proved to be 93.0%, or 7.2% higher than projected.

- (a) Has Anthem performed a reconciliation of the actual to projected loss ratio for 2006 by comparing the actual values, which are now known, to the values assumed in 2005 for various pricing assumptions that impact loss ratios, including but not limited to, claim trend, deductible leveraging, and deductible mix?
- (b) Does substituting known values into the 2006 rating formula generate premium rates that would have enabled Anthem to come closer to the projected loss ratio? Please provide the analysis.

Response:

- (a) The primary factor contributing to the higher loss ratio in 2006 was the difference between projected and actual trend. The claim trend in the filing for 2006 rates was estimated to be approximately 13.8% after an adjustment for enrollment shifts by benefit option. The actual trend observed for the comparable period was 20.1%.
- (b) Anthem BCBS has performed a high level reconstruction of the required rate increase for 2006. The resulting analysis is included in the Excel file accompanying this response. The reconstruction appears to suggest that an average increase in required revenue of approximately 26.5% would have resulted in a loss ratio closer to that originally projected. However, this exercise is done under the presumption that the resulting enrollment in 2006 would be the

same as it was if the average rate increase had been significantly higher than that actually implemented. Higher increases would almost certainly have resulted in different enrollees and different patterns of enrollment than that actually observed.

9. Please provide data that shows the amounts allocated to HealthChoice by each administrative function that led to the administrative expense charge in the filing, and provide a side by side comparison with the actual administrative expenses from last year, noting the reason(s) for material differences. This question is posed as a substitute for the inquiry numbered 13 in the Advocacy Panel's First Informational Request.

Response: Please see Anthem BCBS's response to the First Requests of the Advocacy Panel, Response #13.

DATED: October 12, 2007

/s/ Christopher T. Roach
Christopher T. Roach, Esq.

PIERCE ATWOOD LLP
One Monument Square
Portland, Maine 04101
Attorney for Applicant

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 12, 2007, a copy of the Non-Confidential Version of Applicant's Response to the Second Information Request of the Advocacy Panel was served in the manner indicated on each of the persons listed below:

Thomas C. Sturtevant, Esq. (via electronic mail and U.S. Mail)
State of Maine
Department of the Attorney General
6 State House Station
Augusta, Maine 04333-0006
(Counsel to the Superintendent)

Christina Moylan, Esq. (via electronic mail and U.S. Mail)
State of Maine
Department of the Attorney General
6 State House Station
Augusta, Maine 04333-0006
(Office of the Attorney General)

James Bowie, Esq. (via electronic mail and U.S. Mail)
State of Maine
Department of the Attorney General
6 State House Station
Augusta, Maine 04333-0006
(Counsel to the Advocacy Panel)

DATED October 12, 2007

/s/ Christopher T. Roach
Christopher T. Roach, Esq.

PIERCE ATWOOD LLP
One Monument Square
Portland, Maine 04101
(207) 791-1100
Attorney for Applicant